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DE RUEHBC #0092/01 1541554  
ZNY CCCCC ZZH  
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FM REO BASRAH  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0365  
INFO RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC  
RUEKJCS/SECDEF WASHINGTON DC  
RUCNRAQ/IRAQ COLLECTIVE  
RUEHBC/REO BASRAH 0384

C O N F I D E N T I A L SECTION 01 OF 02 BASRAH 000092

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E.O. 12958: DECL: 6/3/2016  
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SUBJECT: BASRAH FUEL MARKET THRIVES ON SMUGGLING

REF: A) BASRAH 69, B) BASRAH 63, C) BASRAH 38

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BASRAH, DEPARTMENT OF STATE.  
REASON: 1.4 (b), (d), (e)

11. (C) Summary: In a series of meetings with Poloff, petroleum and security officials in Basrah painted a stark picture of Basrah's fuel market and the black market in petroleum products. Smuggling is relatively easy because of Iraq's porous borders. There does not appear to be any organized cartel of fuel smugglers, rather rampant profiteering by enterprising individuals. The overall poor security situation provides traffickers with a free license to operate. Iraqi institutions identified key equipment shortages and weak law enforcement mechanisms as the primary reasons why they are not able to apprehend, prosecute, and convict smugglers. The result is an overall climate of fear and chaos that permits traffickers to operate with impunity. End Summary.

The Border, a Revolving Door  
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12. (C) On April 27, Poloff conducted a discussion with Brigadier General (BG) Abbas Muhsin Ali, Commander of the 4th Brigade Iraqi Border Police. BG Abbas described his area of responsibility as the entire international border with Kuwait, the Al Faw peninsula, and extends north to include the provinces of Basrah and Maysan with Iran. He also stated that he has overseas inland waterways and oil infrastructure between Nassiriya and Zubair.

13. (C) BG Abbas commented that of all of the illicit businesses he confronts in border enforcement, petroleum product trafficking was the most lucrative. He identified the marshlands as his chief area of concern, where his forces have also discovered pyrotechnics, IEDs, and narcotics. Migrants were well armed and dangerous, BG Abbas said, and his operations suffered from material shortages, in particular, a radio communications network.

14. (C) He expressed gratitude for a fleet of airboats that he said the United Kingdom had provided for operations in the marshes. He said that these boats would be operational by the first week in June. The boats currently being used on the inland waterways were regular civilian boats, not patrol craft specifically suited for the task of combating smuggling. (Comment: The donated airboats are similar to those used by U.S. law Enforcement in the everglades and Mississippi delta. End Comment.)

¶5. (C) In an April 17 meeting, Ayad Janni, head of the Oil Protection Force (OPF), echoed BG Abbas' complaints of equipment shortages to REO Poloff. Because of these shortages, the OPF was unable to patrol the entire petroleum infrastructure in its AOR. Equipment shortages included a lack of working patrol vehicles, and Ayad said that he had requested additional vehicles from the Ministry of Oil. The shortage is exacerbated by administrative requirements to the Ministry of Oil that Janni termed "silly," such as the requirement to provide a written justification for any expenditure over USD 25.

¶6. (C) Ayad said that the greatest threat he faced was from well-armed tribal elements and other unspecified terrorist groups that blackmail the OPF with "protection rackets" for critical production nodes, such as exposed pipelines, which pass through tribal areas.

¶7. (C) In a May 6 meeting with the Regional Coordinator, General Manager of the Southern Oil Company Jabbar Ali Husayn al-Lu'aybi raised similar concerns about tribal interference in the security of key oil infrastructure, particularly in the vicinity of the West Qurnah oil field. (see Ref. A)

#### Weak Law Enforcement on Smuggling

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¶8. (C) In a May 28 meeting, Assaf Husam Aldin Assaf, Judicial Investigator at the Basrah Higher Judicial Court (protect), discussed the issue of petroleum product trafficking with Poloff. Assaf has a deep understanding of the legal aspects of prosecuting oil smuggling due to his experience in current and past court cases, as well as police investigations. He said that the difficulty in addressing smuggling was that there was no organized group of individuals, such as a cartel or syndicate, conducting the smuggling operations. Smuggling was informal, and anybody with the access to oil products and the means to move it around could participate in smuggling. He asserted that many senior government officials were profiting from smuggling, including Basrah Governor Mohammed Wa'ili and

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Provincial Council Chairman Sadoon Obadi and a number of police officers (Ref. B). He also alleged that former Prime Minister Jaafari benefited from it.

¶9. (C) Assaf said that the most common method of illicit oil (see note above) shipping was by barge or boat down the waterways of Iraq to Iran or Kuwait, where the cargo was either sold or re-flagged for a longer transit. The longer transits usually terminated in the United Arab Emirates. Assaf said that the practice of re-flagging was not new, and that the Iraqi government informally encouraged it as a means to get around the Oil For Food program petroleum sales caps under the Baath regime. This has resulted in a relatively high level of expertise in smuggling oil out of Iraq.

¶10. (C) Assaf shared a 2005 report on combating oil smuggling from the "Combined Coordination Committee for Counter-Smuggling" with Poloff. This report outlined an interagency approach for enforcing smuggling laws and achieving convictions at a local level. Assaf expressed frustration that the documents were never supported by the relevant central government agencies.

#### No Scarcity of Fuel

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¶11. (C) A local private fuel station in Basrah, Attamiam, informed the REO that he sold Type 93 gasoline at 150 Iraqi Dinars (ID)/liter and kerosene at 20 ID. He said that he experienced occasional shortages of fuel depending on the severity of the security situation, but these occurrences were infrequent. He said he believed his supplier bought fuel directly from a local refinery. When the supplier was short on fuel and fuel shortages occurred in Basrah, he bought fuel smuggled in from Iran and resold it at higher prices.

¶12. (C) Hamid Al-Moosawi (protect), a REO contact and younger brother of a prominent moderate Shia cleric in Basrah, stated there is "no fuel shortage" on the market in Basrah, but said that there was a perception of fuel shortages because fuel-truck drivers are at a high risk for hijacking. According to Civilian Police Advisory Training Team (CPATT) data, 8 out of every 20 trucks that cross the Iraq-Kuwait border are diverted. Some are hijacked, but others are suspected to be voluntarily turning over their cargo to criminal interests in return for a payoff.

¶13. (C) Comment: Smuggling abounds in the permissive environment of Basrah. Prime Minister Nouri Al Maliki spotlighted oil smuggling in Basrah during his May 31 press conference on overall security in Basrah. Although we hear repeatedly that crude smuggling is a problem, it is not one for which the production and export numbers provide much evidence. Even the MoO Inspector General in a recent report on smuggling had virtually nothing to say on the subject of crude smuggling - aside from a one-sentence assertion in his summary that the problem exists. In order to combat smuggling of all types, in particular of petroleum products, security improvements need to be coupled with the necessary economic reforms (see reftel C) to remove fuel subsidies, and with them, the incentive to smuggle petroleum products. End Comment.  
MARRANO